COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4177-01
Bill No.: HB 1583
Subject: Retirement - State; State Employees
Type: Original
Date: April 20, 2010

Bill Summary: Changes the laws regarding the Missouri State Employees' Retirement System.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$1,328,337	$7,562,430	$7,562,430
Total Estimated Net Effect on General Revenue Fund*	**$1,328,337**	**$7,562,430**	**$7,562,430**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other	$1,328,337	$7,562,365	$7,562,365
Total Estimated Net Effect on Other State Funds*	**$1,328,337**	**$7,562,365**	**$7,562,365**

***The average number of employees who elected this incentive in 2003 was 1,590 or 26% of the total eligible. If the total number of employees eligible to retire under this current provision, 5,121, elected this incentive there would be a net savings of $58,148,955.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Department of Conservation** assume this proposal would not appear to have fiscal impact on their agency funds as they do not anticipate the Commission will choose to participate in this program.

Officials from the **Office of Administration - Division of Budget and Planning** assume this proposal should not result in additional costs or savings to the Division. They defer to MCHCP and MOSERS for a statewide impact.

A breakdown of personal services costs was provided by the Division of Budget and Planning. The assumptions include

Average salary for a full time state employee	\$35,863
Fringe Benefits (blended rate) 58.14%	\$20,851
Total	\$56,714

Oversight will assume an average rounded salary of \$36,000 for calculations used in this fiscal note.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation and the Retirement System will be responding on the behalf of the Highway Patrol.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal offers a retirement incentive of a medical insurance premium paid at the active employee rate until January 1, 2015 or until the employee becomes eligible for Medicare; whichever occurs first. This incentive excludes coverage or dependents. Departments could only replace FTEs which would spend up to 50% of the retirees' total salaries.

The DOLIR has 141 employees eligible to retire. These employees were sorted by budgeting org and ultimate funding source. All FTEs were multiplied by 50 percent to determine the positions that would be eliminated since salary amounts used in the calculation were the average salary by budgeting org. The average salaries were determined by using the FY 2009 actual Personal

ASSUMPTION (continued)

Services divided by the Actual FTE from the FY 2011 Budget Request. Department Director, Deputy Director and Division Directors positions and salaries were eliminated from the average salary calculation. The number of FTEs eliminated was multiplied by the average salary by fund source. These amounts were entered as Cost Savings/Avoidance – Salaries and 52.44% of those savings were entered as Fringe Benefit cost savings. Salaries were inflated by 3% each year.

Increased costs for the Retiree Medical Premium Fringe Benefit rate applied to current payroll was set at the same percentages as occurred after the last retirement incentive program – 3.26% First Year, 3.30% Second Year and 3.64% Third Year. These percentages were multiplied by the FY 2011 Personal Services by Fund remaining after the salary cost savings were subtracted.

Officials from the **Department of Transportation** assume their department anticipates no fiscal impact from the proposal as the department would at this time choose to not participate in the incentive program.

Officials from the **MoDOT & Patrol Employees' Retirement System** assume the proposal provides a retirement health care incentive plan for eligible state employees electing normal retirement.

As written, the proposal gives discretion to the Highway Commission as to whether or not to offer the medical incentive to MoDOT and Patrol Employees. Previously, they chose not to offer this incentive.

It is not anticipated this proposal would have a fiscal impact on MPERS.

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the proposal would, if enacted, create a healthcare retirement incentive plan for general state employees who are eligible to retire on or after January 1, 2010, through September 1, 2010. Under this proposal, an eligible retiree or employee who retires during the window may elect to continue healthcare coverage for him/herself at the same cost as if such retiree were an active employee until January 1, 2015 or until becoming eligible for Medicare, whichever occurs first, at which time the rate would revert to the applicable rate for retiree coverage. (Terminated vested members and members eligible only for early retirement during the window are excluded from participating in the incentive.)

As proposed, the health care incentive would only be available to general employees covered under Chapter 103, RSMo; however, the legislation also contains provisions that would allow the governing boards of Truman State University, Lincoln University, and the regional colleges and

ASSUMPTION (continued)

universities, and the commissions that govern MoDOT, the Highway Patrol and the Department of Conservation to elect to offer the same healthcare retirement incentive to their eligible employees.

Eligible Employees

MOSERS has no way of estimating the number of employees who might retire during the window provided by this proposal; however, the table that follows illustrates the number of employees who would be eligible to retire and receive the healthcare incentive.

Number Eligible	**Group**
6,480	**Total Employees potentially eligible for the incentive**
(235)	**Less Conservation Employees**
(1,124)	**Less Employees of the Colleges and Universities**
5,121	**Total General Employees potentially eligible for the incentive**

The proposal further limits the number of employees that departments may hire to replace those employees who retired during the window to no more than 50% of the personal service funds of those positions vacated. The proposal also requires the MOSERS and MCHCP to file a report with the Commissioner of Administration regarding the number of retirees eligible for the incentive, the number of actual retirements, and the premium costs associated with the medical incentive (including a comparison to what the rates would have been had the employees paid the retiree rate) by October 31, 2010.

The Commissioner of Administration, in turn, is required to prepare a report by January 31, 2011, to the governor and the general assembly regarding the information provided by MOSERS and MCHCP including an analysis of the costs and savings of such retirements. The Commissioner it thereafter required to issue updated reports to the governor and general assembly in writing by January 31, 2012.

Lastly, to address the current fiscal crisis, the proposal contains an emergency clause.

This proposal would have no fiscal impact on the retirement program administered by MOSERS.

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal allows certain state employees to retire at a certain time and keep health insurance at the same rate as an active employee and changes provisions regarding the replacement of retiring employees.

ASSUMPTION (continued)

Fiscal Impact of the Bill:
When similar legislation allowing a retiree incentive program was signed into law in 2003 there were 5,078 MOSERS eligible retirees. Out of these eligible, 1,587 MCHCP covered employees elected the incentive. Over the five years this number averaged 1,314 MCHCP eligible employees. On average, this was 26% of the eligible retiree population. The actual cost to MCHCP for the incentive was $17.9 million.

The following breakdown of this cost was obtained from HB 478 (1224-01) in 2009.

CY03 – $ 996,403
CY04 – $ 3,791,704
CY05 – $ 4,321,352
CY06 – $ 3,728,623
CY07 – $ 3,247,143
CY08 - $ 1,801,581
Total - $17,886,806

If the average current cost difference between active employee and retiree monthly premium is approximately $267 and all currently eligible employees (5,739) take the retirement incentive, MCHCP projects the costs associated with providing extra benefits to be up to $91.8 million over the five year incentive period.

	100% participation	**50% participation**	**26% participation**
Cost per month	$1,529,495	$764,747	$397,669
5 year cost	$91,769,685	$45,884,843	$23,860,118

The current average active employee monthly premium subsidy is approximately $694. If the retired workforce is replaced using no more than 50% of funds allocated for those vacant positions, MCHCP projects the costs to be up to $119.5 million over the five year incentive program period.

	100% of allowed replacement funds used	**50% of allowed replacement funds used**	**26% of allowed replacement funds used**
Cost per month	$1,992,125	$996,063	$517,953
5 year cost	$119,527,514	$59,763,757	$31,077,154

It should be noted this proposal does not indicate the premium responsibility for incentive

ASSUMPTION (continued)

dependents. If retiree dependents are no longer covered, or if the retiree is responsible for the dependent's entire portion of the premium, approximately $455 a month, the estimated impact could have potential savings of up to $64.2 million over the five year incentive program period.

The following breakdown of this cost was used for HB 478 (1224-01) 2009.

CY 10 $ 1,140,790
CY 11 $ 4,341,925
CY 12 $ 4,948,440
CY 13 $ 4,269,685
CY 14 $ 3,718,855
CY 15 $ 2,063,355
Total - $20,483,050

Also, HB 478 (1224-01) 2009, MCHCP also assumed 50% of the positions will be filled with new employees resulting in 752 new employees. The average active employee subsidy is $8,436 per year x 752 employees x 5 years resulting in $31,719,360 for a total fiscal impact of $52,202,410 over five years.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Office of Administration Net reduction in personnel service costs, fringe benefits, expense and equipment, and health benefit premiums	$1,328,337	$7,562,430	$7,562,430
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$1,328,337**	**$7,562,430**	**$7,562,430**
ALL OTHER FUNDS			
Savings - Office of Administration Net reduction in personal service costs, fringe benefits, expense and equipment, and health benefit premiums	$1,328,337	$7,562,430	$7,562,430
ESTIMATED NET EFFECT ALL OTHER FUNDS*	**$1,328,337**	**$7,562,430**	**$7,562,430**

***The average number of employees who elected this incentive in 2003 was 1,590 or 26% of the total eligible. If the total number of employees eligible to retire under this current provision, 5,121, elected this incentive there would be a net savings of $58,148,955.**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding the Missouri State Employees' Retirement System (MOSERS) to allow for a medical insurance and retirement incentive for certain state employees who are eligible for state-sponsored medical benefits. In its main provisions, the bill:

(1) Allows an employee who retires by September 1, 2010, to elect to continue coverage for himself or herself at the same cost as if the retiree was an active employee until January 1, 2015, or until the retiree is eligible for Medicare, whichever occurs first. The cost will revert to the applicable retiree rate on January 1, 2015, or when the retiree becomes Medicare eligible. Dependent coverage will be at the applicable rate for a retiree;

(2) Allows the governing body of any participating member agency to provide the medical coverage specified in the bill so that employees or retirees will be eligible to apply the medical coverage to their current benefits;

(3) Allows the governing boards of Truman State University, Lincoln University, and any educational institution listed in Section 174.020, RSMo; the Highways and Transportation Commission; and the Conservation Commission to provide their employees or retirees the same medical coverage as specified in the bill;

(4) Allows current employees who are receiving creditable service and are eligible to receive a normal annuity beginning on or after January 1, 2010, but no later than September 1, 2010, or an employee who terminated coverage on or after December 1, 2009, and retired with a normal annuity within 60 days of termination or a retiree whose normal retirement annuity commenced on or after January 1, 2010, but no later than September 1, 2010, to be eligible to receive medical coverage. This benefit will not apply to any employee eligible to retire based solely on early retirement eligibility;

(5) Allows departments to rehire for positions that are vacated due to the election to retire; however, the departments will be limited to using no more than 50% of the personal service funds of those positions vacated. This provision will not apply to Truman State University, Lincoln University, or any educational institution listed in Section 174.020; and

(6) Requires MOSERS and the Missouri Consolidated Health Care Plan (MCHCP) to report in writing by October 31, 2010, to the Commissioner of the Office of Administration on the number of state employees eligible to retire and the premium costs associated with those who retire under these provisions. The commissioner will report this information annually to the Governor and General Assembly by January 31, 2011, through January 31, 2015. The report will include an

DESCRIPTION (continued)

analysis of the costs and savings resulting from the retirements and the amount of payroll and positions reduced.

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Department of Conservation
Missouri Highway Patrol
Office of Administration -
    Division of Budget & Planning
Department of Transportation
Missouri Consolidated Health Care Plan
Division of Labor and Industrial Relations
MoDOT & Patrol Employees' Retirement System
Missouri State Employees' Retirement System

Mickey Wilson

Mickey Wilson, CPA
Director
April 20, 2010